RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Post Office Box 1759, La Jolla, California 92038

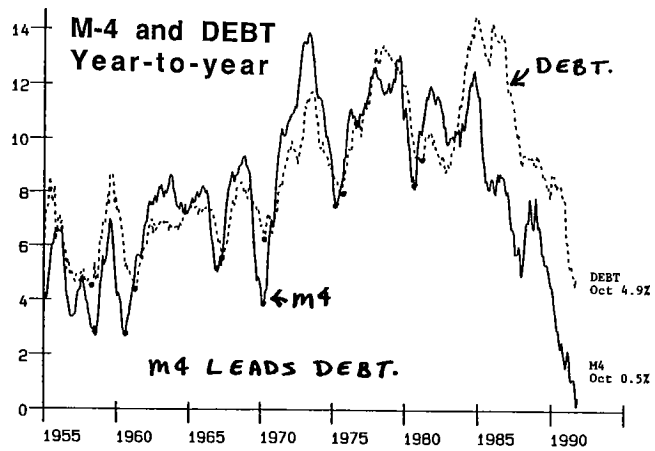
26 Letters Per Year • $250 annually

Dec. 24, 1991 **LETTER 1085**

SHOOT THE WORKS: Dec. 19, Fed Chairman Greenspan before Congress, "There is a deep-seated concern out there which I admit I have not seen in my lifetime." Translation: this isn't a recession, it's a depression. So on December 20 the Fed threw in the sponge, dropping the discount rate a huge 1% to its lowest level in 28 years. Will that cause you to go out and borrow and buy? Will the US economy re-inflate? Mmmm.

Coming in 1992: Ed Hyman of *ISI* counts 196 individual corporate layoff announcements since mid-July, most of which will be implemented in the first quarter of 1992.

Chart of the Week (courtesy of Ed Hyman's *ISI*): Here we see the growth of M-4 or "liquidity," the broadest measurement of the money supply, and also the growth of total debt (dotted line). Hyman says M-4 growth tends to lead debt growth by two years. If so, the recession could easily last through 1993.



THE MARKET: Deliverance, or saved (so far) by the Transports. The D-J Industrial Average, in breaking below its August 19 low of 2898.01, gave one half of a bear signal. But in Dow Theory, half a bear (or bull) signal is no better than none. When one Average penetrates a critical point, it is mandatory that we receive confirmation from the other Average before we can draw valid conclusions.

The August 19 low on the Transportation Average was **1147.91**, and I stressed in recent Letters that this critical level for the Transports must be violated before we can say that a bear market is in force. On the recent selling, the Transports never got near breaking the 1149.91 level. On December 12 the market rallied, and the rally took the Transports back above the 1200 level.

Why the strength in the Transports? I wish I knew. But I do know that by any system of valuation the Transports are astronomically overvalued. Obviously, the market in its collective wisdom, must think the potential is there for much higher earnings somewhere ahead. The mystery, of course, is that the Transportation Average is already priced as if a boom in the transportation industry was underway. Ah well, it's these little mysteries that make the study of the stock market so difficult -- and so fascinating.

As for my **Primary Trend Index** (PTI), this prescient index came down and broke slightly below its 89-day moving average (see page 2 chart). The break was immediately followed by a mild

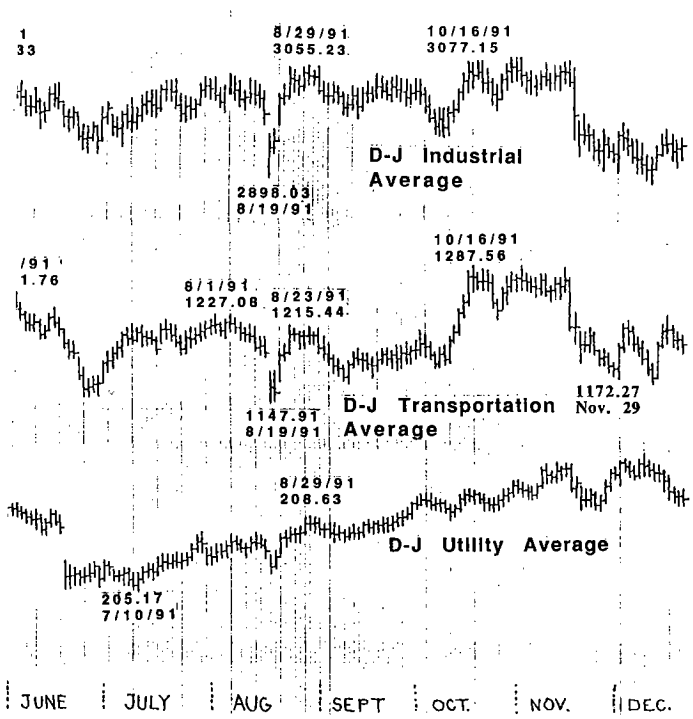
Dec. 13 DJIA 2914.36; PTI 3387; A-D Ratio -11.81
Dec. 19 DJIA 2914.13; PTI 3381; A-D Ratio -12.15
Dow Yield: 3.14%; Dow P/E: 28.9; DowPow: -207
Dow 200-day MA: 2967; Dow 30-day MA: 2937
Dow Times Book Value: 2.18 PTI 89-day MA: 3389
Percentage of Undervalued Blue-chips: 12%

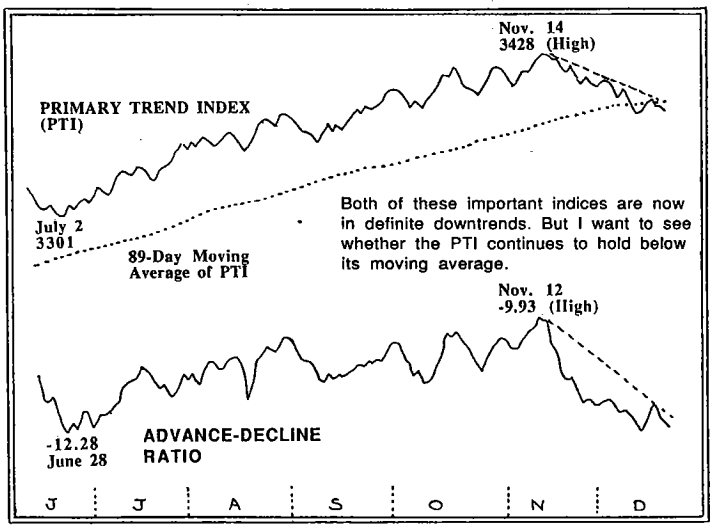
rally. As of this writing, the weakness in the PTI is obvious enough, and I don't like the picture. But I want to be careful. For a clear bear signal, I want the PTI to break decisively below its 89-day moving average, and then embark on a continuing declining trend. By the next Letter, the picture should have clarified.

THE BIG PICTURE: What the devil's wrong? What's really happening in this country? Here's my view. The US has been living the good life (far over its head) through the mechanism of rising debts and deficits ever since World War II. The cost of carrying those debts and deficits has been rising almost geometrically. But so far the burden of carrying those debts has been "handled" through a systematic process of inflation.

Through the "miracle of inflation," the value of the dollar has shrunk, and it continues to shrink year after year. Since all US debt is denominated in dollars, miraculously, the value of our debt will shrink as long as inflation is the dominant force. So don't complain, c'mon, inflation is the American way.

Ah, but there is a catch. History tells us that inflation has always contained the seeds of its own destruction. It has to do with the law of diminishing returns. As I see it, the inflation cycle began the process of reversal with the market crash of 1987. Without inflation, the burden to the US and its citizens of carrying the debts and deficits has become increasingly onerous.





As a matter of fact, today we've come to the point where the government's inflation-injections just don't seem to work the way they used to. Why? Maybe the total of all US debts ($15.7 trillion) has grown too unbelievably large, maybe the annual federal deficits have become too massive, or maybe, just maybe, the markets have become too sensitive to (or frightened of) inflation.

Consider this -- currently, the US is producing the greatest debts and deficits in world history. These debts would ordinarily be setting off rampant inflation. But that's not happening. The fact is that huge deficits have reached the point where they are now exerting deflationary pressure. Whereas 20 or even 10 years ago giant deficits would have fired up the economy, today's huge deficits simply frighten and disgust people.

The fact is that the market's response to deficits has changed. People's attitudes towards deficits have changed. And certainly in today's vast global economy, the world's attitude towards deficits (and inflation) has changed.

Question: What did you make of the 1987 market crash?

Answer: I felt that was the market's way of warning that inflation was dying. Consider this: the Dow was 2722.42 at the 1987 peak, just before the crash. Today the Dow is roughly 4.7% higher than it was at its 1987 peak. In other words, on current readings the Dow has gained a little better than 1% per year over the last four years. Ironically, an investor would have done better holding T-bills than he would the 30 Dow Industrials. Does that sound like inflation? Or is the lagging price of 30 of America's largest corporations trying to tell us something?

Question: With total US debt (government and private) at roughly $15.7 trillion, and with the US in recession, isn't it going to be almost impossible to carry this enormous debt?

Answer: It may not be impossible, but unless we inflate it will be extremely difficult. And the difficulty is already showing up in the one million civilian bankruptcies this year and in the thousands of corporate bankruptcies. The pressure of deflation is also showing up in mass layoffs, as company after company seeks to cut down on its overhead. Perhaps the most obvious effects of deflation can be seen in the collapse of commercial real estate. Over-building, weak financing and declining prices have decimated commercial real estate and put it in the tank for probably years to come.

The effect of deflation can also be seen in the government's response. Without coming out and actually admitting it, the Fed has been doing its darnedest to **re-inflate** the economy (mainly through the mechanism of declining interest rates). The Fed hopes that lower rates will cause people to borrow and buy. And the administration is literally begging people to borrow and buy. Recently President Bush, in a much-ridiculed performance, went to a shopping center, entered a J.C. Penney store, and made a great show of purchasing $28 worth of socks. This was supposed to be an example for all loyal Americans.

Question: I see that some economists are calling this a "contained depression." What do you think?

Answer: I agree. Look at it this way -- the government has borrowed hundreds of billions of dollars in its efforts to keep the crashing S&Ls and busted banks from toppling the the US economy into depression. So what has happened? The burden of those massive losses in the S&Ls and banks has simply been shifted to future generations via massive increases in the federal debt. These increases in the debt have always been "handled" through inflation. But inflation simply robs wage earners of the fruits of their labor, and inflation destroys whatever savings people manage to put aside. Many economists call inflation "the hidden tax."

So yes, the so-called government safety nets have given us a "contained depression" instead of a 1930s-style depression. But we have not heard the end of the story yet, and the contained depression has not ended yet. And the national debt continues to grow larger and larger, month after month, year after year.

Question: Russell, what is the effect of all this on the stock market?

Answer: Just as a potential depression has been contained, so a potential primary bear market has (so far) been contained. As I see it, the stock market has been holding together over the last year on the thesis that the government has put a "floor" under the economy -- at least, until inflation can take hold again. At that point, business should start to improve. The upturn, it is hoped, will start some time in 1992. In other words, by holding in a trading range, it is felt that the stock market is telling us that the worst has been discounted and that Wall Street is simply marking time until the upturn materializes.

To insure that an upturn will take place, both political parties are now openly competing with each other on the tax-cut front. But many economists would rather that Congress and the president just leave the economy alone. It's just a matter of time, say these economists, before the economy turns up of its own accord. "So bow out," urge these economists, "and let nature take its own course. The Fed has already done enough. Cutting taxes would just generate bigger deficits, and bigger deficits could drive interest rates up again."

Question: Russell, do you see any flaw in the market's "thinking"?

Answer: As stated above, it's obvious that the averages are holding together on the thesis that the market has "seen the worst" and that the "worst" has been discounted.

Investors (like everyone else) tend to be conditioned by their most recent experiences. Experience tells us, "Don't fight the Fed." Since the Fed has been trying for almost two years to re-inflate the US economy, the stock market takes it as an article of faith that the Fed will ultimately be successful. I believe that's the rationale behind the current "trading range market," a market that's holding up in the face of dismal economic statistics.

So the question is -- can the Fed turn the economy around? If it can, then the stock market will have been correct in discounting the turn far ahead of the fact. But if something new has been added, if all the Fed's efforts prove to be in vain, then the bear will have won. Obviously, the verdict is not yet in, and it may be some time before the final verdict is in. So the stock market waits and waits, locked into its extended 8% trading range.

Question: A survey of their members by the National Association of Purchasing Agents shows that on a 5-to-1 ratio, the purchasing agents are "optimistic that 1992 will be better than 1991." What do you think?

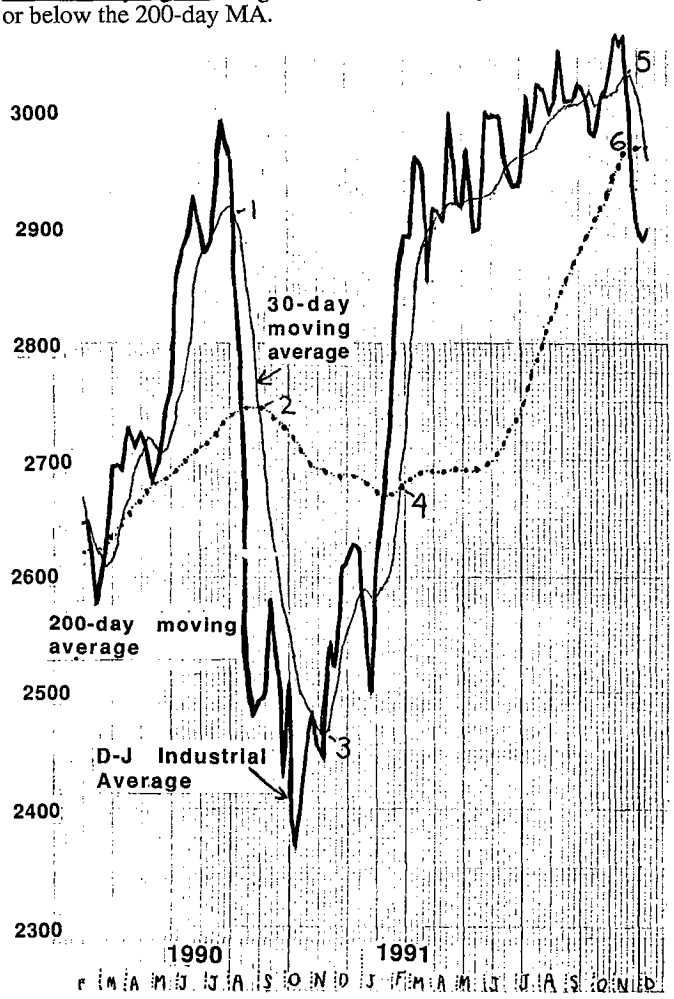
Answer: Again, I leave it up to the market. If it turns out that the recent stock market action is just a correction, then there is a good

chance that the purchasing agents will be right. But if we are in the early (and very deceptive) stages of a primary bear market, you can write off the purchasing agents' predictions as mere wishful thinking.

MOVING AVERAGES: As readers know, I put most of my trust in studies having to do with market action. At this point I want to present an "action of the market" study that I feel is particularly timely.

This is a study of two moving averages (MA) of the Dow, the 200-day MA and the 30-day MA. I've written a great deal about the 200-day MA of the Dow. George Schaefer, the great Dow Theorist and my mentor (he died in 1974), used to call the 200-day MA of the Dow the "investment line." This is what Schaefer wrote on October 28, 1950 (a year after he called the beginning of the great 1949-66 bull market). "Charles H. Dow considered aggressive buying by investors over a long period of time as the most bullish of all market forces. Dow's editorials placed strong emphasis on the buying of values by investors as a prime condition leading to bull market advances. Therefore, to know when investors are buying on balance is a situation that is helpful to traders in anticipating bull trends . . . Since investors usually accumulate their holdings over a long period of time, an average of 200 consecutive closes for the Industrial Average is particularly valuable. Certain deductions can be made from the trend of this line and its relationship to the current Dow. In prolonged bull markets the predominate long-term trends of both the Dow and the 200-day MA is up, and so the Dow holds above the 200-day MA."

I have followed the relationship of the Dow and its 200-day MA ever since I started in this business 33 years ago. I have also refined the study by using a 30-day MA of the Dow along with the 200-day MA of the Dow. Thus, preliminary signals are given when the Dow crosses above or below its 200-day MA. And further confirmatory signals are given when the 30-day MA crosses above or below the 200-day MA.



The accompanying chart traces the action of the Dow (heavy line), the 200-day MA (dotted line) and the 30-day MA (thin line). The action and interaction of these three lines is fascinating. Note that a sell signal was given in September 1990 when the Dow plunged below the 200-day MA (1 on chart). A confirmatory sell signal was given in early October (2) when the 30-day MA broke below the 200-day MA. Then in November 1990 a buy signal (3) was given when the Dow surged above the 200-day MA. A confirmatory buy signal (4) was given in February 1991 when the 30-day MA crossed above the 200-day MA.

What about the most recent action? A sell signal was given in November (5) when the Dow plunged below its 30-week MA. And on December 11 (6) a confirmatory sell signal was given as the 30-day MA dropped below the 200-day MA.

How accurate are these signals? They tend to be good, but obviously (as in every other technical study) there will be whip-saws. But let me put it this way -- *no major bull or bear market can get underway without an early preliminary and then a confirming signal coming from the two moving averages.* That's simply because of the construction of the moving averages. But obviously, once a crossing has occurred, no power on earth can tell you how far the move will carry and how long it will last. In other words, there's no way a crossing of the moving averages can guarantee the duration or extent of the ensuing move.

Currently, this study is in the bearish mode with the Dow below the 30-day MA, the 30-day MA below the 200-day MA -- and both MAs heading down. The values for the two MAs always appear on the top of page 1 in the statistics column.

INVESTMENT POSITION: I've traded the bull for a question mark. I was tempted to put the bear in the box, but I don't want to jump the gun (I should know more by the next Letter).

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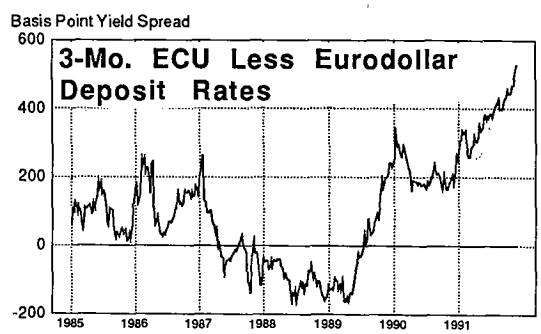
As I've been saying in recent Letters, this isn't the time to "beat the market." I know the newspapers and magazines and TV channels are filled with ads all telling us how we can garner profits, how we can boom our incomes, how we can avoid taxes, how we can pick the next mutual fund winner.

My answer to all the above is "I'll pass." This is not the time to beat the market. This is not the time to get cute or fancy. This is "don't lose money time." In other words, this is the time to play it very safe.

I've been talking about the sinking dollar in Letter after Letter. At this point, the interest rate disparity between the dollar and the European currencies is almost ridiculous. The chart below (courtesy Merrill Lynch) shows the spread between the three-month ECU and Eurodollars. Gad. It's almost 6%. I've been quoted around 9% for one-month French government paper and around 9.75% for three-month ECUs. The only caveat at this point is that the dollar, after sinking for months, has almost all the "smart" money playing against it. I'm most afraid that there may be too many players against the dollar, meaning that the equation against the dollar may be getting lop-sided.When that happens, you can get a good rally (a bear market correction) in the dollar. Also, on a purchasing power parity basis, the dollar is dirt cheap. People



coming back from Europe tell me that "they're glad to get back to the US where prices are half what they are in Europe."

What to do with new money? -- stay short and stay safe and stay liquid.

NOTES & QUOTES: Recession Notes: Advertising is seeing its worst period in 30 years. Ad spending in major media declined 1.7% this year, the first such decline since 1961. Particularly hard hit are the newspapers, which will probably see a 5% decline in revenue this year with prospects not much better for 1992 . . . Sung Won Sohn, chief economist for Northwest Corp. in Minneapolis, notes that the current 6.8% unemployment rate would probably be 12% to 13% if Americans who have dropped out of the labor force because they can't find jobs were included . . . All the "Anglo Saxon nations" are now in recession -- the US, Britain, Australia, New Zealand . . . In England Jaguar has fired one-third of its work force, and the company will evidently lose about $360 million this year. It is felt that Jaguar needs a small car to survive, but such a car is thought to be five years away. I said so at the time, and I'll repeat it -- Ford's purchase of the antiquated Jaguar company was a stroke of idiocy.

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The Fed has lowered rates 17 times during this recession, and so far the Fed's action has done no good. Ironically, this time the lower rates may be doing more harm than good. Why? Roughly 14% of all consumer income now comes from the return on interest rate items. That interest income has been just about cut in half by the drop in rates. The loss of income, in turn, has caused many consumers to draw back on their spending, thus helping the economy to remain in recession.

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By 1999 Europe will be using a common currency, the ECU. Currently, only Belgium is actually producing an ECU, here it is and it's worth $1.29. But the way things are going with the dollar, by 1999 this coin could be worth $2 to $5, who knows!

Belgian 5 ecu coin

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One of the best barometers of hard times is the waiting lists at high-priced country clubs -- and the waiting lists have been declining. Examples: in 1990 Japanese interests paid more than $800 million for the famous Pebble Beach golf courses. Memberships were then sold for $750,000 but the price has now dropped to $150,000. Waiting period in NYC for club memberships has dropped from 45 months to 32 months, in Chicago from 41 to 31 months, in St. Louis from 20 to 9 months, and in Washington from 52 to 31 months.

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What happened to Texas, the Southwest and New England is now happening to California. The Coast's real estate is deflating, hanging up the banks with hundreds of millions of dollars in losses. California's 485 banks reported a combined third quarter loss of $74 million, against profits of $859 million a year ago. The situation is critical since California's bank assets constitute 10% of the assets of the entire US banking industry.

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Well, it had to happen. Standard & Poor marked down California's debt rating from AAA to AA. With $9.5 billion outstanding in bond debt, the down-rating will cost the Golden State an extra $120 million a year. With the Coast markdown, that leaves only six states with AAA rating -- Maryland, Missouri, both Carolinas, Utah, and Virginia. Massachusetts has the honor of having the lowest (BBB) rating, while the next lowest rating (A) is shared by New York and Louisiana.

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Taxes and the Shaft: Forty years ago a middle income family paid approximately 2% of its earnings in taxes. Times have changed. Now the same family pays roughly 44% of its earnings in taxes. And Washington wonders why the nation is sinking into recession.

And oh yes, back in 1986 our government eliminated almost all tax shelters; in turn they dropped the peak income tax rate to 28%. They also eliminated the special treatment for capital gains so that if you took a risk on an investment and later sold that investment, you paid the regular tax -- no discount at all for taking that risk. Mr. Bush has been howling for years for a new lower capital gains tax, and this year Mr. Rostenkowski has decided that maybe that's not a bad idea. But Rosty wants a trade-off; in return for a lower tax on capital gains he wants to raise the peak tax on the rich to 35%. So here we are -- no tax shelters, no special treatment for capital gains, and if we want a lower tax on capital gains we pay higher income taxes. I'd call that the shaft, wouldn't you? But I predicted this would happen back in 1986.

I've talked to a lot of people about taxes, and almost everyone is disgusted with the whole system. But what makes people most angry is that they feel they don't get anything for their tax payments. Nothing, that is, except big government, boondoggles and corruption . . . By the way, the National Taxpayers Union Assoc. did an analysis and they found that the House and Senate propose $43 in spending for every dollar they propose in spending cuts, with Democrats far more likely to create new ways to spend the money.

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Irony: For years analysts were saying that the Dow wasn't representative because "America's greatest blue chip," IBM, wasn't included in the Dow. It was claimed that "the Dow would be higher by a thousand points if IBM had been properly included in the Dow." So finally Dow Jones put IBM in the Dow. IBM hit a high of 176 in 1987, and it's been going down ever since. Currently "Big Blue" is well below its 1987 crash low. Soon I expect to hear analysts telling Dow Jones to take IBM out of the Industrial Average because IBM is no longer representative.

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The first presidential primary will be held in New Hampshire in February. Here's how the Dec. 10 *WSJ* describes conditions in the state: "New Hampshire has seen its jobless rate triple to 6.9%. Food stamp claims have skyrocketed. Businesses have been hurt by a credit drought, brought on by the recent failure of the state's five largest independent banks, among the 47 that closed throughout the region this year. More bank failures are expected." So this is where Mr. Bush is going to run, and Pat Buchanan will be running against him. The media and the administration have been calling Buchanan an anti-semite and a right-wing crazy. I don't believe either count. You know something -- I wouldn't miss Bush at all if he doesn't get reelected. As for Pat Buchanan, I don't think he's got a chance, but Buchanan is shrewd, and he's zeroing in on a lot of areas where voters are mad as hell -- including massive foreign aid, government corruption, spending and high taxes plus Bush's concentration on foreign affairs.

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As the recession deepens and the US trade balance worsens, US anger continues to build up against Japan. Akio Morita, brilliant CEO of Sony, recently took note of the decision by the 12 European nations to cooperate in building a "new Europe." States Morita, "Such a decision would be very difficult for the Japanese. The Japanese are completely isolated from others by water. Thus, throughout history we have remained homogeneous and independent of others. We have refined our own culture, but never have we had to live side by side, and interact with others . . . Very few Japanese understand how different we are culturally from the rest of the world. And that is why so few can conceive sacrificing some of our interests to have harmony with others. Undoubtedly this is the root of many of our problems today. It is why the Japanese have been accused of not playing a responsible role in the world.

"The concept of the nation is also quite different. The Japanese people are born Japanese. America is made up of immigrants who arrived at its shores with the will to become Americans. Out of the necessity of creating order in a great and open space, self-reliant communities in America created their own rules and hired a sheriff. Historically, then, Americans know that rules are created by themselves in their own interests. Through the experience of self-

government, they know that rules are not created just for the interest of others, but for their own good. The Japanese mentality has not been affected by such an experience. For millennia, we have been governed by a government that has forced rules and regulations upon us."

Karel van Wolferent (author of "The Enigma of Japanese Power") writes, "Merciless competition with Japan under current ground rules is not the answer because it is impossible. Japan's power is unprecedented. It has been created through the consolidation of an intricate informal system of control over economic and political life, to a point where there is no line of demarcation between public and private sectors. This means that large, well-connected firms cannot go bankrupt. It follows that foreign firms, no matter how much they increase their efficiency, can ultimately never compete with Japanese firms . . . Japan's distrust of the world is a major force behind the country's single-minded economic expansion. Japan's administrators take it for granted that economic domination translates into national security . . . The Japanese constitution is an alien document and remains (inadvertently) a monument to American distrust of Japan. By renouncing the right to wage war, it took away the sovereignty that had just been handed to the Japanese people."

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Meditation time: I read about the old guard disappearing, and I say to myself, "Gad, I can't believe it. I was born in 1924, and here I am today with five kids, my two youngest 10 and 13 and my oldest 36. And I was a witness to history. I'm one of the guys who remembers the Great Depression, one of the guys who was worried about leaving the lights on in the living room, one of the guys who worried about having a nickel for a ride on the subway, one of the guys who remembers working a six-day week (loading trucks) for $18.75 (it was a union job at that). And yeah, I was part of the Allied tide that beat the two worst scourges of modern times, Nazism and Communism. World War II was a bloody horror, but it was a war with a purpose, and it was a war that the good guys actually won.

The last of the great WWII Generals lived three houses down the block from me in La Jolla. He was General Lemuel Sheppard, the wartime commandant of the Marine Corps. The General (he died two years ago) was a fine fellow, always a gentleman, always ready with a story, always cheerful even though toward the end he was going blind. Sheppard was the last of a great breed. At the same time, George Bush will be the last of the WWII presidents. You can list them, the presidents who were in the armed forces during WWII. Eisenhower, Kennedy, Johnson, Ford, Carter, Reagan, Bush. There won't be another one. A new generation will soon be taking over.

Occasionally, I'll watch the tail end of a WWII movie, "Thirty Minutes Over Tokyo" or "A Walk in the Sun," and I'll blink and tell myself, "Can those be the B-25s I flew in combat? Can those be the times I lived through? I shake my head, and it all seems like one long dream. I turn the station and I see and hear the images of a new world -- drive-by shootings, millions of unmarried mothers, the new Europe, the shrinking dollar, a powerful Germany and Japan, AIDS, multi-million dollar sports salaries, the recession of the '90s, rock music.

Speaking of music, some times when I'm exercising early in the morning I turn to MTV, the 24-hour rock music station. And invariably, I ask myself, "What ever happened to melody?" The kids today don't know what melody is. The music today is all the big beat, heavy drums, hysterics, gyrating, half-naked performers. But there's no melody, nothing to remember. What would a Cole Porter or a George Gershwin or an Irving Berlin do today? Answer: probably look for a job, but not in music. Their kind of music has pretty much disappeared from the scene. But is there a rock record out today that will be remembered five years from now? I doubt it. Nevertheless, today's music probably fits the times -- savage, confused, unsentimental, often hysterical, highly sexual, mostly violent and hostile.

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Senator Daniel Moynihan is a thinker, and he comes up with a lot of new concepts. One of his concepts is as follows: for the last 100 years the main concern of social policy has been to blunt the destructive effect of industrialization, particularly unemployment. But he believes that the problems of unemployment, while they are still with us, are overshadowed by a new social phenomenon -- welfare dependency. "We think we have a new social condition," Moynihan said recently, "Just as unemployment was the defining condition of industrialism, dependency is becoming the defining condition of post-industrial society." Russell comment: I agree. We have created a welfare society in which many people have never worked and never intend to, many families are emotional cripples, and whole segments of society have settled into institutionalized welfare. The "dysfunctional family" has become the new description, and I recently saw the Kennedys described as "America's first dysfunctional family" (and it's probably true). Welfare dependency is ominous, it's a huge expense to the nation, and it presents a great social problem that has yet to be solved.

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Speaking of social problems, I'm a member of the *Zero Population Growth* society (1400 16th St., NW, Washington, DC 20036). This group is worried about the world population explosion, and so am I. Consider these population figures. In the year 1810 there were one billion people on earth. 1872 -- two billion people. 1960 -- three billion. 1974 -- four billion. 1987 -- five billion. 1998 (projected) -- six billion. The world population is exploding exponentially, filling the earth with pollution, garbage, stress and angry people. My feeling is that if the world doesn't start moving towards zero population growth soon, nature will do the work for us. I don't know exactly how that's going to work. In the past it's worked via wars and plagues. Is there something new out there that we don't know about (maybe AIDS)? By the way, this organization put out a fascinating chart rating 200 US cities on the basis of eleven criteria including crowding, education, water, sewage, air quality, economics, etc. The best cities listed were: Cedar Rapids, IA, Madison, WI, Ann Arbor, MI, Lincoln, NE, Fargo, ND, Livonia, MI, Concord, CA, Alexandria, VA. Worst cities were Gary, IN, Baltimore, Chicago, Houston, Jersey City, Pomona, CA, El Paso, Cleveland, Ft. Worth, Inglewood, CA, Los Angeles, St. Louis, Detroit.

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With the new united Europe in the wings, the various stock exchanges are vying to be the Continent's preeminent leader. So far, it looks as though London with its SEAQ International electronic trading may have that honor. London is the biggest foreign equity market in the world, accounting for two/thirds of the reported share trades outside their country of origin.

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Banking: Comptroller General Charles Bowsher had some unsettling things to say about the new banking guidelines instituted last month. He noted that the new rules make it easier for banks to hide weak real estate loans. "As a result," he said, "there will be more banks failing without reasonable warning, the extent of losses will be hidden and the regulatory process will be severely hampered." Bowsher compared the Bush administration's new policy to the Reagan administration's weak oversight of the failed S&L industry. Appearing before the House last week Bowsher stated that it was impossible to say how much the ultimate bailout of the banks will cost. Said Rep. Frank Riggs, "Your testimony today is quite alarming. I suppose that's your role -- persistent pessimist." Replied Bowsher, "I guess so," and then he reminded the boys that his pessimistic analysis of the S&L and bank problems over the past several years had proven prophetic.

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You want a seat on the NYSE? One just sold for $431,000, up $46,000 from the last sale on Nov. 15. The current bid is $375,000, asked is $490,000.

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Range Rover, the British maker of sports-utility vehicles, had a formula for ending the recession, and they advertised it in *USA Today* a few weeks ago. Here's the formula --"Buy Something." Of course, Range Rover would like you to buy their car, but if you can't afford that they suggested, "Buy a microwave, a basset hound, theatre tickets, a Tootsie Roll, something." It's a noble idea, but the problem is that people are heavily in debt, and they're worried about losing their jobs. So what Americans are really

thinking about is how to get out of debt and how to get their hands on some greenbacks. "Buy something" may be the wrong message.

* *

Hollywood: The critics hated "Scarlett," the so-called sequel to "Gone With the Wind." But the public loved the new book, and it promptly went on the best seller list. Now Manhattan-based RHI Entertainment has bought the TV rights to Scarlett for an astounding $9 million, the highest price ever paid for media rights to a public property.

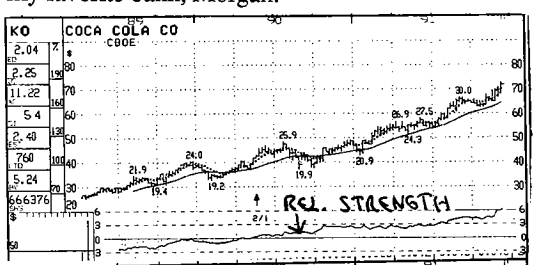
* *

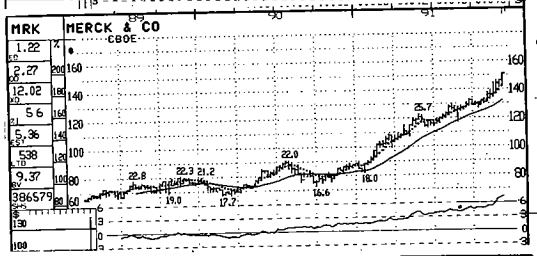
You know that saying that in movie making "Nobody knows anything." That seems to be the case. The very expensive and long-awaited "Hook" is out, and the critics are lukewarm, except for *USA Today*, which hated it. Will the public like it? They better, it cost near $80 million. Bette Midler's new and expensive movie, "For the Boys," looks like it will be a box office disappointment too. But the public loves "The Addams Family." And the critics love "Bugsy." Go figure. Oh yes, in Hollywood nobody knows anything.

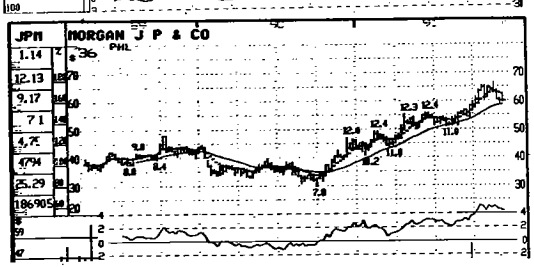
* *

Is the race for the potentially monster flat-screen market lost? It would seem so. American PC makers say there are no US companies that can manufacture the screen in large quantities. Meanwhile, Japanese NEC Corp. has announced that it plans to build a 30 billion yen factory to produce up to 50,000 matrix liquid-crystal displays a month, which could account for up to half the total LCD market by 1995. Whew!

NOTES: Checking the charts of the 30 Dow Industrials, I've got to say that two-thirds of them look like basket cases. But there are exceptions. Allied looks OK as does Coca Cola, DuPont, Kodak, Goodyear, McDonald's, Merck (a real winner), J.P. Morgan (another winner), Philip Morris and Proctor & Gamble. The rest look poor to lousy -- all longer-term top-out candidates. Here are *Mansfield* charts of Coke and Merck, two of the best and I'll add my favorite bank, Morgan.

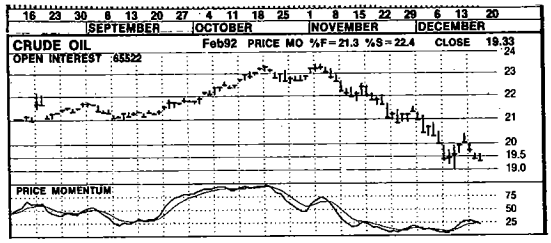






GOLD and OTHER THINGS: Question: Inflation is fading, so why hasn't gold, which is an inflation hedge, collapsed in price along with oil, other commodities?

Answer: Over recent years gold certainly hasn't done very much, but on the other hand gold has held stubbornly above the 350 level, despite, for instance, the current crash in oil prices (charts courtesy of *Investor's Business Daily*) and despite the big slump in commodities. Gold has held its own because gold is real money and because gold provides the ultimate escape from paper (fiat) money. Gold has held up because if today's mild inflation turns into net deflation (as is already happening in many areas including commercial real estate, oil and commodities), then the banking system could "hit the fan." If that happens, many people would rush to the ultimate safety of gold.

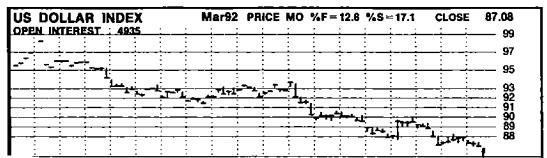


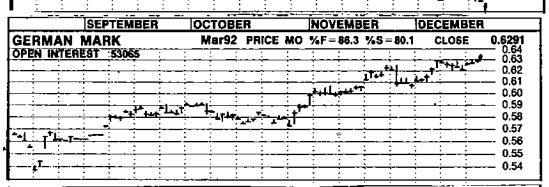
But there is one other point. Many economists point out that all deficits are ultimately monetized and inflated away, it's just a matter of time. If this is true, then somewhere ahead (and I don't know how far ahead) this nation faces a monstrous, crushing inflation. It goes back to my long-held alternative for the US, "inflate or die," and our politicians have no intention of dying.

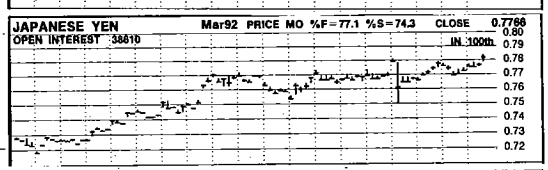
Of course, up to now investors have had an alternative to the dollar, and that is foreign currencies. This chart shows the precipitous collapse in the Dollar Index, and the next few charts show the opposite -- the major advances in the dollar's chief competitors, the Yen and the Mark.

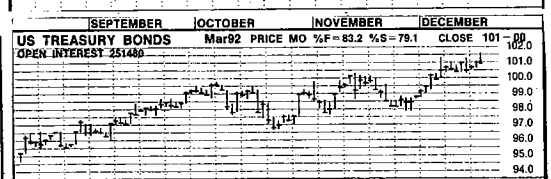
The momentum lines at the bottom of the Dollar chart indicate that the dollar is oversold, but in bear markets (and I'm afraid the dollar is in a big bear market) an item can stay oversold for weeks and even months.

Actually, the dollar is now living in the worst of all worlds -- a nation that is (1) drowning in debts and deficits, (2) deep in recession, (3) run by a confused and demoralized administration, (4) offering fantastically uncompetitive interest rates.









The last chart shows Treasury bonds which have been bulled week after week by the Fed's lowering of the discount rate and the Fed Funds rate time and time again. The low rates have played havoc with the dollar, but as I've said before, neither the Treasury nor the administration gives a damn how far down the dollar goes as long as the descent is "orderly." Some of us remember that the strength of a nation's currency tends to reflect the strength of a nation itself. Sick currencies are indicative of sick nations. Let history be the judge.

FINAL NOTES: Ironically, the Bundesbank, the world's most apolitical and independent central bank, raised the German discount rate and Lombard (bank) rate a day before the Fed lowered their rate. This set off an even more extreme disparity in rates between the US and Europe. With European rates now probably at their peak, many sophisticated observers are saying that German ten-year bonds are the place to be. I wouldn't argue with that opinion.

I continue to watch that August 19 low of **1147.91 on the D-J Transportation Average.** With a carload-a-day of rotten economic news emerging, the Transports have nevertheless refused to violate that level. Technically, I think that's the biggest plus in the bull argument, and I'll admit that (so far) I'm impressed.

NEXT MAILING: Jan. 8